In the News

American to Buy Branches

LOS ANGELES — American Savings and Loan Association said it signed a definitive agreement to purchase 13 southern California branches of Pacific Savings Bank, with combined deposits of $425 million. The price was not disclosed. "We will use these retail deposits to reduce hot money jumbo deposits and other borrowings," said William J. Popejoy, chairman and chief executive officer of the nation's largest thrift and its parent, Financial Corp. of America.

Failures 60 and 61

WASHINGTON — The $19.7 million deposit First National Bank of Onaga, Kan., and $17.0 million deposit First National Bank of Glenrock, Wyo., became the 60th and 61st banks to fail this year. The Kansas bank's deposit liabilities of $19.7 million have been assumed by the newly chartered First National Bank of Onaga. The Wyoming bank was reopened as National Bank of Glenrock, also newly chartered.

Sun to Sell Shares

SAN DIEGO — Sun Savings and Loan Association said it signed a definitive agreement to sell 247,000 shares of its guarantee stock to Fargo Industries, a California real estate developer. Sun said the transaction is subject to regulatory approvals, the underwriting of a public offering of 1,053,000 shares and the execution of associated leases and option documentation.

Fuqua Bid for Thrift

ATLANTA — Georgia Federal Bank said Fuqua Industries Inc., a diversified manufacturer based here, will make a tender offer Aug. 1 for its shares at $23.75 a share, payable approximately half in cash and half in Fuqua common stock, or, at Fuqua's option, all cash. The savings bank said it will not comment until it has studied the offer.

Suit Against BankAmerica

SAN FRANCISCO — BankAmerica Corp. is being sued by a stockholder who says her 100 share investment was hurt by the announcement last week that the bank lost $338 million in the seond quarter. In her class-action suit, Barbara Zarowitz claims that Bank of America made "inferior, risky and imprudent" loans and that officers misrepresented the financial condition of the company.

Lincoln S&L Settles Case

BERWYN, Ill. — Land of Lincoln Savings and Loan said Security Pacific Clearing and Services Corp. and Security Pacific National Trust Co., have agreed to return $3.8 million in securities and proceeds purchased by Lincoln through Parr Securities Corp., a New York-based securities dealer which collapsed in May. Prior to the collapse, the securities had been transferred by Parr to Security Pacific.

— Compiled by Kenneth J. Hicks

What Analysts Say

Fleet Financial Tops Keefe's Bank 'Honor Roll'

Security Firm's Annual Listing Ranks 184 Holding Companies

By JOHN P. FORDE

Fleet Financial Group of Providence, R.I., topped Keefe, Bruyette & Woods Inc.'s "honor roll" listing this year, with a 25.5% compound growth rate and no declines in annual earnings per share over the past 10 years, according to a report by the bank stock firm.

The honor roll is an annual ranking of the 184 bank holding companies in Keefe's universe of bank stocks by 10-year compound growth rates in earnings per share.

In the latest survey, Fleet was followed by Northwestern Financial Corp. of North Wilkesboro, N.C., which had a 22.8% compound growth rate for the past decade. Virginia's Central Fidelity Banks, Allied Bancshares of Texas, and Citizens and Southern Corp. of South Carolina filled out the top five spots.

At the other end of the ranking were the worst performances of the period, including Continental Illinois Corp., Crocker National Corp., and First Pennsylvania Corp., all of which reported losses in 1984.

The best regional performance in the survey was turned in by the 48 banking firms in Keefe's southern area, which had an average 10-year compound growth rate in earnings per share of 18.7%. This performance was led by Northwestern Financial.

The next best performance by region was at the 44 banks in Keefe's western sector, which posted a 15.9% compound growth rate. United Bancorp. of Arizona took top honors in this group with a 19.5% compound growth rate for the 10 years.

This western average barely edged the 15.8% average rate at 55 eastern banks, which was led by Fleet's performance.

This group of banks includes most of the major money center institutions. The highest 10-year compound growth rate among New York banks in the Keefe universe was 13.7% by Republic

▶→ Analysts: Page 7

'85 Keefe Honor Roll
10-Year Compound Growth Rates

The 10 Best with No EPS Decline in 10 Years		
Fleet Financial	R.I.	+25.2%
Northwestern Financial	N.C.	+22.8
Central Fidelity Bks.	Va.	+17.8
Allied Bancshares	Tex.	+16.7
Citizens & Southern	S.C.	+15.7
Security Pacific	Calif.	+15.7
Citizens Fidelity	Ky.	+15.5
Zions Utah Bcp.	Utah	+15.4
Texas Commerce Bcsh.	Tex.	+15.3
Natl. Bank of Alaska	Alaska	+14.9
The 10 Worst		
American Security	D.C.	-12.3%
Bank of Mid-America	Okla.	-32.0
BancTexas Group	Tex.	N.M.*
Continental Illinois	Ill.	N.M.*
Crocker National	Ca.	N.M.*
Equimark Corp.	Pa.	N.M.*
First Oklahoma	Okla.	N.M.*
First Pennsylvania	Pa.	N.M.*
ONB Corp.	Wash.	N.M.*
Orbanco Financial	Ore.	N.M.*

* Not meaningful because of reported loss in 1984.
Source: Keefe, Bruyette & Woods Inc.

Securities Industry Launches Counteroffensive to Blunt Banks' Campaign to Expand Their Securities Beachhead

By NINA EASTON

WASHINGTON — The securities industry has mounted a counteroffensive to legal maneuvering by three bank holding companies seeking Federal Reserve Board approval to broaden their securities activities.

Relying on a novel interpretation of the law, attorneys for the New York City holding companies — Citicorp, Bankers Trust New York Corp., and J.P. Morgan & Co. — are trying to convince the Fed that their proposed securities activities do not violate the Glass-Steagall Act. That Depression-era statute prohibited on the mixing of commercial and investment banking.

But in comments filed with the Fed this week, two leading securities groups raised questions about that legal interpretation. They also contended that the proper forum for deciding these issues is Congress, not the regulatory agencies.

In its application, Citicorp is asking the Fed to permit its subsidiary, Citicorp Securities Inc., to underwrite municipal revenue bonds, mortgage-backed securities, and securities backed by consumer receivables. J.P. Morgan and Bankers Trust both want to place commercial paper through subsidiaries.

The Fed is scheduled to rule on these applications within 60 days.

Before Congress, the issues raised by these three applications boil down to a debate over public policy. But the debate at the Fed turns on legal semantics.

Citicorp is gambling on a clause in Glass-Steagall prohibiting the affiliation of banks with companies "principally" engaged in underwriting securities.

To Citicorp's lawyers, that means banks can affiliate with securities firms as long as no more than half of their business is devoted to securities prohibited to banks. In its application, Citicorp agreed to limit the new securities activity to 10% of its subsidiary's total business. Citicorp Securities currently underwrites and deals in U.S. government securities, general obligation bonds, and money market instruments.

Applause for Imagination

Banking attorneys roundly applauded the argument as further evidence of the imagination of Citicorp attorneys. J. P. Morgan and Bankers Trust last spring agreed to similar limitations in an attempt to elicit Fed approval for their commercial paper operations.

But that theory won't wash with the securities industry. Representing the

▶→ Securities: Page 10

FDIC Snubs Bill to Help Farm Banks Cope with Bad Loans

By KIM KAPLAN
and BARTLETT NAYLOR

WASHINGTON — A Senate Banking subcommittee opened hearings Wednesday on the Farm Credit Relief Act, which would empower the Federal Deposit Insurance Corp. to allow agricultural banks to renegotiate loans with farmers and then write off the loss over a period of up to 30 years.

The FDIC, while likely to win new power under such legislation, panned the bill, stressing that most agricultural banks that have failed have fallen prey to their own mismanagement as much as the poor agricultural economy.

The Senate bill, introduced by Sen. Alan J. Dixon, D-Ill., would permit a qualifying bank to negotiate down a troubled loan to the point that a farmer's cash flow could handle the repayment schedule. The bank would then be permitted to reamortize any part of the loan that had been forgiven and write it off against the bank's capital over the entire life of the rescheduled loan, up to 30 years. Currently, the entire loss from such loans must be written in the year in which it occurred.

The farmer would no longer owe the portion of the debt that had been written off, said Sen. David H. Pryor, D-Ark., a cosponsor of the bill.

One of the reasons for allowing the agricultural banks to renegotiate loans is to reflect the drop in value of farmland in the past few years, Sen. Dixon said.

Only banks with less than $200 million in assets and at least 25% of their assets in agricultural loans would be eligible to request permission to renegotiate with the FDIC.

The FDIC would decide, "case by case," based on "the bank having a better chance of surviving with this help than without it," said another cosponsor, Sen. Bennett Johnston, D-La. The quality of the bank's management also would be considered.

"There is nothing about this bill that forces the FDIC to do anything, but it can with this authority," Mr. Johnston said.

FDIC reaction to the proposal is "quite adverse," according to the agency's director of government relations, Graham T. Northup.

"It is not honest bookkeeping," Mr. Northup said. "Also, our losses are always less if, when a bank is insolvent, it is closed promptly."

He also said that there is no need for a plan to provide relief to agricultural banks. Banks that are failing are doing so because of poor management, Mr. Northup said. He added that many

▶→ FDIC: Page 7

Analysts . . .

Continued from Page 3

New York Corp., which was followed by a 10.9% rate at Bankers Trust New York Corp.

A group of 37 midwestern banking firms reported a 14% 10-year compound growth rate, which was the bottom rung in the survey. This group includes institutions which faced major problems during the period, most notably Continental Illinois Corp.

The best performer in this group was First Wisconsin Corp., Milwaukee, which posted a 20.9% compound growth rate for the 10 years.

Lawrence R. Vitale, the analyst at Keefe who authored this year's honor roll report, singled out Trust Company of Georgia as one of the survey's stellar performers. The company has both one of the highest 10-year compound growth rates of the group, 18.9%, and also one of the highest rates over the past five years, when earnings per share grew at a 24.5% compound rate.

Trust Company of Georgia recently completed its merger with Sun Banks of Florida to become SunTrust Banks Inc.

Noting that the firm doesn't appear in the list of companies with no declines in the past 10 years, Mr. Vitale said that "a 1985 performance in line with our expectation for the pre-SunTrust company would include it on the list to be compiled next year." He added that this would also enable the firm to compile "one of the higher" 10-year compound growth rates.

"Only three of the top 10 banks in 10-year growth, and only one among those with the top 10 five-year records, were consistent enough to fall into the 'no declines' category also," he added.

Despite this, Mr. Vitale thinks the listing of companies with no declines in annual earnings per share comprises his true honor roll of consistent earners, as opposed to a simple list of 10-year compound growth rates.

As evidence, he offered the fact that if the regional lists were extended to include 20 companies instead of 10, only one bank in the "no decline" category would fail to fall among the growth leaders in its region. ■

Comment . . .

Continued from Page 4

- Audits that include examinations of teller's journals, cash transaction logs, and summaries of currency transaction report and currency or monetary instrument report filings.
- Reviews by auditors of the remedial measures taken to correct deficiencies cited by them.
- Extensive training of tellers and platform personnel in the requirements of the Bank Secrecy Act and in the practices common to many laundering schemes.
- Designation of a person to keep track of new laws, regulations, interpretations, and banking circulars. That person would coordinate compliance and insure that the bank's policies and procedures are adapted to the changing requirements.

Many of these suggestions are also contained in the interim report of the President's Commission on Organized Crime (October 1984). The report should be on any banker's required reading list.

Regardless of whether the Reagan administration bill becomes law, the additional resources that federal prosecutors and bank examiners are now devoting to identify violations of the Bank Secrecy Act may result in a mushrooming in the number of fines and criminal trials. Banks must be prepared to allocate more of their resources to insure compliance and to avoid substantial penalties, costly litigation, and damaged reputations. ■

FDIC . . .

Continued from Page 3

failed banks are in "unit banking states" in which the firms cannot expand with additional branches.

These charges of mismanagement are detailed in an FDIC internal report recently obtained by the *American Banker.*

Though sections have been deleted by FDIC attorneys, the conclusion of the report is intact: "Although a depressed agricultural economy no doubt aggravated conditions and perhaps accelerated the failures, the primary cause in all instances was mismanagement coupled, in many cases, with insider abuse."

In another passage, the FDIC report lists 28 failures that occurred between Jan. 1, 1984, and Feb. 5, 1985. Next to each is the phrase, "Reason for failure:" But the reasons themselves have been deleted.

In some cases, the accusation of mismanagement and insider abuse does not jibe with the FDIC's own public statements issued at the time of the failure.

For example, included in the list of 28 farm bank failures is the David City Bank, David City, Neb. It was closed Sept. 6, 1984, and reopened as a branch of the First National Bank of Omaha.

In its press release, the FDIC cited no insider abuse or mismanagement, only the bad farm economy. "The bank has been struggling in a down agriculture economy and this factor was paramount in causing its insolvency," explained Roger M. Beverage, the Nebraska state banking commissioner, in the FDIC release. He added that the "owners were unable to come up with the additional capital needed as a result of extensive loan losses."

Moreover, William Souva, who was president of David City Bank when it slid into collapse, explains that "mismanagement and insider abuse" were not at play.

Contacted at the Citizens National Bank of Akron in Colorado, where he became executive vice president three months after leaving David City, Mr. Souva cited the depressed farm economy.

Mr. Souva said he has "no idea" why the FDIC would come to this conclusion. "The bank failed primarily because of ag conditions. The value of collateral declined. We pressed for collection and failed."

Though he has not seen the internal FDIC report, he says he "couldn't go along" with its findings.

Nebraska Bankers Association executive vice president Stan Matzke is more direct about the FDIC findings: "It's a cheap shot."

Times are tough in the Farm Belt, and creditors are simply being dragged down with the crowd, Mr. Matzke explained.

Kansas Bankers Association executive director Harold A. Stones recently noted, "My personal opinion is that the FDIC doesn't want to be accused of a lack of forbearance in the ag economy. The regulators are going to do everything in their power to show [the reason for the failures] is other than what they did.

"But we feel there is a tremendous gulf between Washington and field practices. Yes, there is a lack of forbearance by the regulators." ■

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TODAY

Foreign Investment in the United States

In recent years a flood of foreign capital has poured into the United States, defying global market theory and helping revamp the ailing U.S. industrial sector, according to M.S. Mendelsohn. His story opens today's special section on foreign investments, which includes the annual listing of the world's top 500 banks by deposit. The overview begins on page.... 15

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newsmonday

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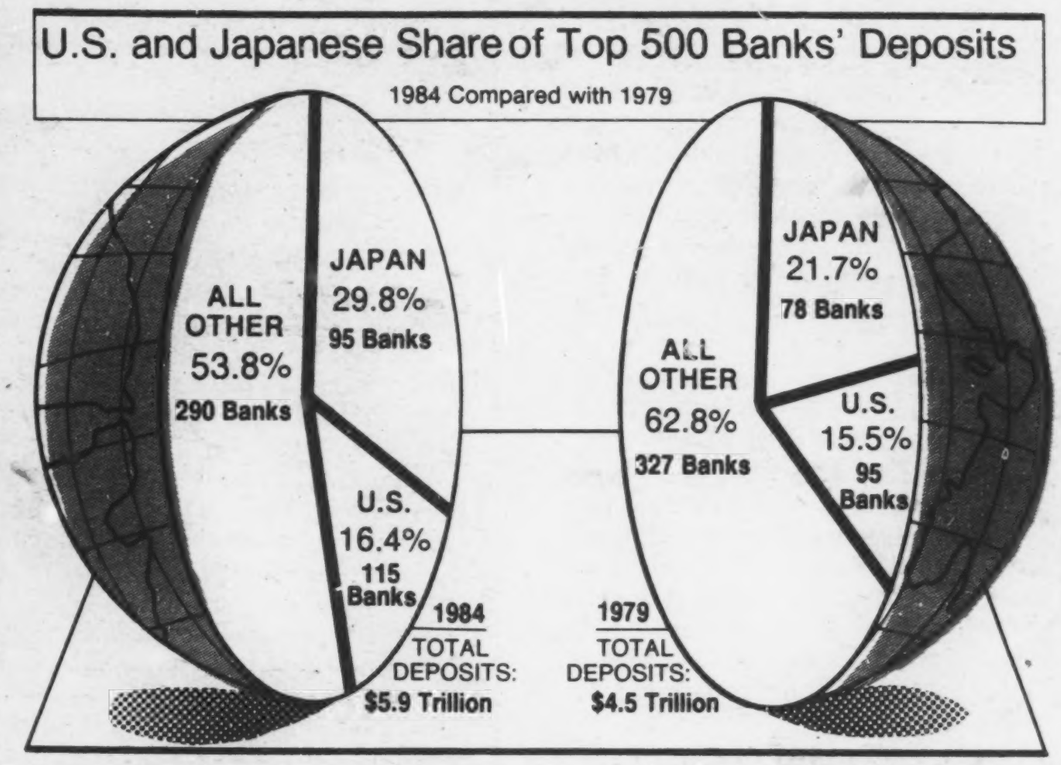
U.S. and Japanese Share of Top 500 Banks' Deposits
1984 Compared with 1979
ALL OTHER 53.8% 290 Banks
JAPAN 29.8% 95 Banks
U.S. 16.4% 115 Banks
1984 TOTAL DEPOSITS: $5.9 Trillion
ALL OTHER 62.8% 327 Banks
JAPAN 21.7% 78 Banks
U.S. 15.5% 95 Banks
1979 TOTAL DEPOSITS: $4.5 Trillion

Japan Dominates in Deposits

That Nation's Large Banks Increase Presence in Top 500 List

By L. MICHAEL CACACE

NEW YORK — Japanese banks increased their domination of the world's top 500 banks, based on yearend 1984 deposits. The large banks of Japan continued their surge in the *American Banker's* annual listing of the top 500, aided by a strong Japanese economy, the relative strength of the yen vis-a-vis the dollar, lower interest rates, and regulatory changes.

The three largest deposit-taking institutions in the world are now Japanese. Five of the world's top 10 banks are now Japanese. And the 95 Japanese banks in the listing account for almost 30% of the top 500 banks' deposit total. In 1983, only one Japanese bank ranked among the top three; four of the top 10 banks were Japanese; and the 95 banks in the listing held 28% of the deposits.

In 1979 — just five years earlier — no Japanese bank ranked among the top 10 banks in the world; and the 78 Japanese banks in the listing accounted for less than 22% of the total deposits of the top 500 banks.

These are some of the findings of the *American Banker's* 29th annual survey of the world's top 500 banks, ranked by deposits, published today. On Tuesday, the top 500 world banks ranked by assets will be published.

According to Tsukasa Yonemura, secretary general of the Institute for Financial Affairs, Tokyo, there were five major reasons for the continued surge in deposit growth at Japanese banks last year.

First, "this increase reflects the favorable performance of Japan's economy in 1984," with industrial production rising 16.5%, exports moving up 15.7%, and gross national product, in constant prices, rising 5.8%.

➡ Top 500: Page 89

BankAmerica Looks to Sell Prize Assets

FinanceAmerica, LA Building May Be for Sale, Sources Say

By MIKE CARROLL

NEW YORK — Stung by a massive second-quarter loss, BankAmerica Corp. is looking at the sale of several prized assets to strengthen its capital base.

Sources in the investment community say that BankAmerica recently retained a Wall Street investment house to begin evaluating a possible sale of FinanceAmerica Corp., its finance company subsidiary. FinanceAmerica is the third largest U.S. bank-owned finance company, with total capital

➡ BankAmerica: Page 95

Why Are So Few Asking Hutton for Damages?

By TOM FERPIS

NEW YORK — Why are so few banks seeking restitution from E.F. Hutton & Co.? That question was raised last week as word leaked out that only about 50 institutions had formally indicated they would ask to be reimbursed for losses stemming from the Wall Street brokerage house's elaborate check-overdraft scheme.

As the official deadline for participating in a court-arranged restitution program passed last Thursday, there were indications that Hutton might end up spending much less

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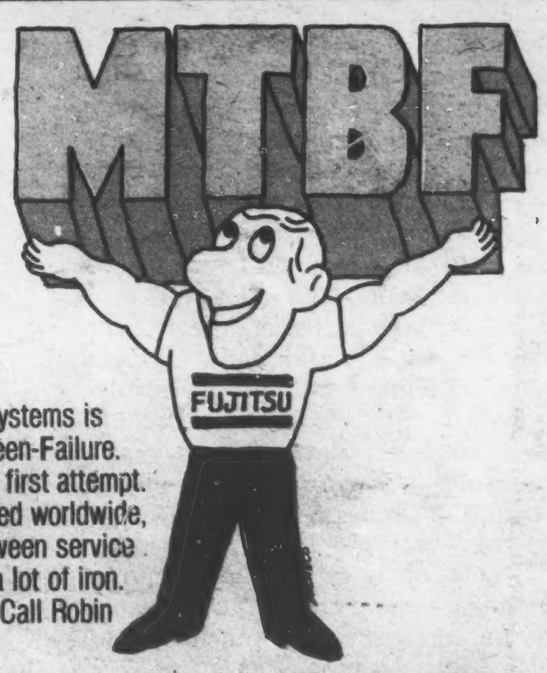

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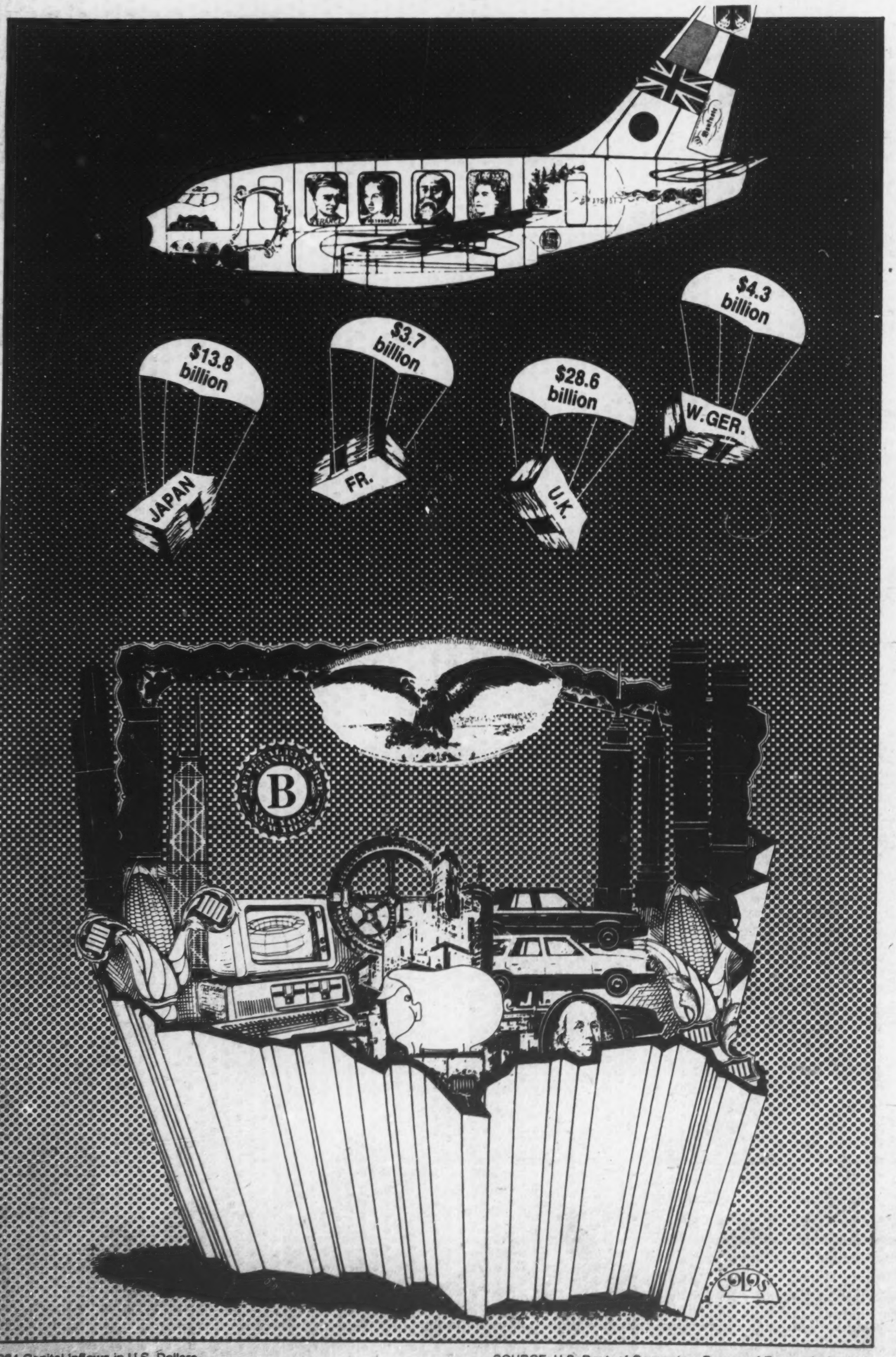
PULL OUT AND SAVE

Foreign Investment in the United States



1984 Capital inflows in U.S. Dollars

SOURCE: U.S. Dept. of Commerce, Bureau of Economic Analysis

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Foreign Piggy Banks Revamp US Industry

Contradicting classic textbook analysis, worldwide savings at record levels have been a key force behind U.S. industrial reconstruction.

By M.S. Mendelsohn

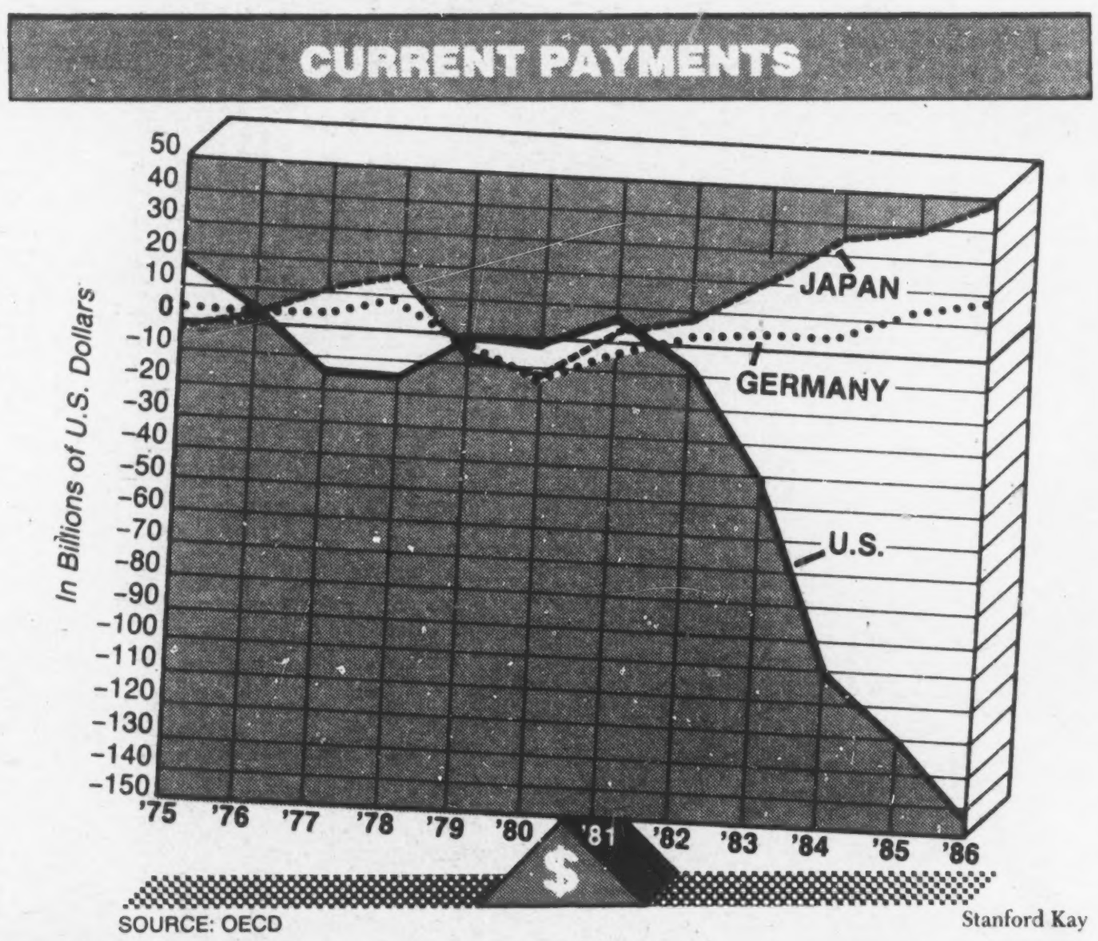
IN RECENT years, capital has been flooding into the United States from the rest of the world on a scale never seen before. In the past three years alone, net inflows have totaled about $150 billion, representing the counterpart of America's record deficits on trade and other current transactions with foreign countries. Given present trends and policies, at least $250 billion more of the world savings will flow into the United States through the end of 1986.

How long can this phenomenon, which contradicts everything the textbooks teach, go on? Possibly for a while longer, according to authorities as diverse as the staffs of the Federal Reserve system, the Bank for International Settlements, and the Organization for Economic Cooperation and Development, although all of them have admittedly hedged their bets.

The contradiction arises because rich, mature industrial countries are usually net exporters of savings, while poorer countries import capital to augment domestic savings for investment in growth. Short-term periodic deficits of mature economies are not unusual, however, and the current account of the U.S. balance of payments has moved through cyclical deficits in the past. It did so after the Korean War in the early 1950s, again in 1959, and once more in 1971 and 1972.

On each of those occasions, as well as in 1979, a dollar "crisis" brought a return to current surpluses. At some time in the future, it is inevitable that the current account of the U.S. balance of payments will return to a position of surplus once again.

But this time, the perversity of net capital inflows into the world's biggest economy has gone on for an exceptionally long time, taking on the characteristics of a secular, or enduring pattern. The United States has run current deficits and imported corresponding amounts of world savings during seven out of the nine years since the end of 1976; it is now heading for a record current deficit and capital inflows in 1986 and possibly beyond that.



SOURCE: OECD

Stanford Kay

M.S. Mendelsohn is an American Banker staff correspondent based in London.

During the past decade, the "normal" pattern has clearly been stood on its head. In retrospect, America's current account surpluses and net capital exports of 1980 and 1981 now look like cyclical aberrations. Except for those two years, the United States has been performing like a developing country for almost ten years.

More accurately, perhaps, it has become a "redeveloping economy," a phrase coined by Deborah Allen Olivier of the University of California and Claremont Graduate School. From that

The Big Picture

point of view, the United States is passing through a period of massive reinvestment in machinery, equipment, and the service industries as part of a longer-term restructuring. It is hoped that this will ultimately lead to the emergence of a revitalized, modernized, and more efficient economy.

The process is seen as self-reinforcing because the strength of the dollar, created by the flow of funds into the United States across the exchanges, adds to the deflationary pressure. This forces American industry to readjust to international competition at home and abroad.

The combination of American domestic policies that have contributed to the present situation is no less paradoxical. When President Reagan took office in January 1981, he did so with a commitment to fiscal rectitude. But while he persuaded Congress to cut taxes and increase defense spending, Congress did not cut back the growth of other government spending as the administration had hoped.

Meanwhile, the Federal Reserve kept a tight grip on money creation, refusing to finance federal budget deficits. These deficits rose from 1.2% of gross national product in calendar year 1980 to around 4% by 1983. According to the OECD, deficits will remain close to that level through 1986.

The net result of those partly unintended and uncoordinated policies by the three arms of government, however, was to produce a classic, noninflationary, Keynesian economic recovery. After contracting by more than 2% in 1982, America's real gross national product grew by 3.7% in the following year, and by an almost unprecedented 6.8% in 1984. Growth of around 3% is projected for this year and next.

The spontaneous creation of almost 8 million new jobs has reduced unemployment from more than 11% to just above 7%, and consumer price inflation has been reduced from an annual 15% at the start of 1980 to less than 4%. No other major industrial country has matched that performance.

Admittedly, growth of domestic demand in the United States has sucked in massive imports, but it has done so while still permitting a strong rise of employment at home. This has made it easy for the United States to finance its growing trade and current account deficits.

In addition, foreign suppliers have been ready to leave substantial portions of their American earnings in dollars instead of converting them into their own currencies. International investors, buying into dollar assets, have further helped drive up the dollar's exchange rate. This has reinforced America's low inflation rate, which exerts its own pull on international funds.

Americans have invested at home rather than abroad. Within the industrial countries, America's growing deficits have been largely offset by the rising surpluses of West Germany and, above all, Japan. That divergence between the world's three biggest economies is partly cyclical, reflecting relatively slower economic growth recently in West Germany and Japan than in the United States.

Differing Tax Structures

But it is also, in part, deeply rooted. In Japan, the tax structure encourages saving and discourages borrowing, while the American tax structure does precisely the opposite. That helps explain why savings in Japan have run at close to 20% of disposable incomes during the past 20 years, compared with a range of 13% to 15% in West Germany, but only 6% to 7% in the United States.

During the 1960s, when the Japanese economy was expanding at more than 10% a year and West Germany's economy grew close to an annual 5%, high Japanese savings were predominantly invested at home. But with the distinct slowing down of domestic growth during the 1970s and the early 1980s, Japanese and West German savings have increasingly sought alternative deployment abroad. Political stability, inflation, strong economic growth, and a high real interest rate all have attracted foreign commerce to the United States.

Capital flows have also been promoted through direct government action. Japan has been lifting restrictions on capital outflows since 1980. And the U.S. treasury has been selling "targeted" bonds since last December, aimed at nonresident investors who are offered anonymity as well as exemption from withholding for U.S. tax. All nonresident investment in the United States has been exempt from the latter since July 1984.

In a circular way, the size of capital flows into the United States has contributed to the country's growing current deficits, which in turn are balanced by ever-larger capital inflows. This has resulted in a rapid erosion of America's position as a net creditor to the rest of the world.

Indeed, it is generally estimated that the United States has already become a net debtor. As a result, there has been a very sharp reduction of America's net investment income from abroad and of the nontrade current account as a whole. On the Federal Reserve's latest estimates published in May, America's stock of foreign assets fell from about $120 billion to about $5 billion between the end of 1981 and 1984, excluding official holdings of gold, special drawing rights, and automatic drawing rights on the International Monetary Fund.

The contraction in the stock of for-